### Financial Statements and Supplemental Information For the Year Ended June 30, 2008



### **Grand Rapids Tax Increment Financing Authority**

(A Component Unit of the City of Grand Rapids, Michigan)

Financial Statements and Supplemental Information

For the Year Ended June 30, 2008

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99 Monroe Avenue N.W., Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

### **Independent Auditors' Report**

Members of the Grand Rapids
Tax Increment Financing Authority
Grand Rapids, Michigan

We have audited the accompanying financial statements of the Grand Rapids Tax Increment Financing Authority (the Authority), a component unit of the City of Grand Rapids, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2007 financial statements and, in our report dated November 9, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Grand Rapids Tax Increment Financing Authority at June 30, 2008, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of projects is presented for purposes of additional analysis and is not a required part of the basic financial statements of Grand Rapids Tax Increment Financing Authority. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we express no opinion on it.

Grand Rapids, Michigan

BDO Seedman, LLP

December 1, 2008

### **Management's Discussion and Analysis**

This section of the Grand Rapids Tax Increment Financing Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2008. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts.

### **Using the Financial Report**

This financial report consists of two financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and the Statement of Activities, which present financial information in a form similar to that used by corporations.

The Statement of Net Assets includes all of the Authority's assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

### **Statement of Net Assets**

Statement of	1 (00 1288008		
	Fiscal Year 2008	Fiscal Year 2007	% Change
Assets			
Current assets	\$ 1,141,149	\$ 1,333,629	(14.4)
Noncurrent assets	3,616,851	3,760,633	(3.8)
Total Assets	\$ 4,758,000	\$ 5,094,262	(6.6)
Liabilities			
Current liabilities	\$ 77,521	\$ 399,350	(80.6)
Noncurrent liabilities	946,800	1,015,800	(6.8)
Total liabilities	1,024,321	1,415,150	(27.6)
Net Assets			
Invested in capital assets, net of related debt	2,601,051	2,680,033	(2.9)
Restricted for authorized projects	1,132,628	999,079	13.4
Total net assets	3,733,679	3,679,112	1.5
<b>Total Liabilities and Net Assets</b>	\$ 4,758,000	\$ 5,094,262	(6.6)

### **Current Assets**

### Equity in Pooled Cash and Investments

The City of Grand Rapids maintains an investment pool for most City funds and component units. The Authority's portion of the investment pool is displayed on the Statement of Net Assets as "Equity in pooled cash and investments." Investments are certificates of deposit, commercial paper and money market investments (short-term highly liquid debt instruments that have a remaining maturity at time of purchase of one year or less), and are carried at fair value.

### **Noncurrent Assets**

### Capital Assets, Net

At June 30, 2008, capital assets of \$3.6 million included land, land improvements, buildings and structures, net of \$1.6 million of accumulated depreciation. The difference between the capital assets on June 30, 2008 and June 30, 2007 is the difference between the \$194,314 annual depreciation expense recorded in the fiscal year 2008 and the new construction added during the fiscal year.

### **Current Liabilities**

### Accrued Interest Payable and Noncurrent Liabilities, Current Portion

Accrued interest payable in the amount of \$8,521 and noncurrent liabilities, current portion, in the amount of \$69,000 represent the 1997 and 2000 bonds debt service payments due within 12 months after June 30, 2008. Differences between fiscal years 2008 and 2007 are directly related to scheduled differences in the Authority's share of the annual debt service requirements for these two Kent County Drain Commission bond issues.

### **Noncurrent Liabilities**

The \$946,800 balance at June 30, 2008, represents 1997 and 2000 floodwall project principal payments scheduled to be paid after June 30, 2009.

### **Net Assets**

Net assets represent the difference between Authority assets and liabilities. Total net assets at June 30, 2008 were \$3.7 million, which is 1.5% higher than at June 30, 2007.

### Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, of \$2.6 million includes the historical acquisition costs of land, land improvements and buildings, net of accumulated depreciation and any outstanding related debt. The difference between fiscal years 2007 and 2008 is equal to the amount subtracted for fiscal year 2008 depreciation expense and the amounts added for Canal Street Park improvements and the decrease in outstanding debt.

### Restricted Net Assets for Authorized Projects

Restricted net assets of \$1.1 million represent the balance available for Authority projects on June 30, 2008. The Authority's net assets are restricted by the requirements of Public Act 450 of 1980, as amended, which limits expenditures to those that further the Authority's development program. The increase in restricted net assets in fiscal year 2008 resulted from greater revenues than expenditures as discussed below.

<b>Statement of</b>	<b>Activities</b>
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- Statem	tent of fredivides		
	Fiscal Year 2008	Fiscal Year 2007	% Change
Downwag			
Revenues	\$ 421.001	\$ 310.848	35.4
Property taxes	, , ,		
Investment earnings	65,477	77,853	(15.9)
Miscellaneous	495	<del>-</del>	100.0
Total revenues	486,973	388,701	25.3
Expenses			
Urban development	380,261	310,498	22.5
Interest and paying agent fees	52,145	55,139	(5.4)
1.7 8.8	- , -	,	(= ' /
Total expenses	432,406	365,637	18.3
Excess of revenues over expenses	54,567	23,064	136.6
Special Item			
Settlement of litigation	-	550,000	(100.0)
Change in net assets	54,567	573,064	(90.5)
Net Assets, beginning of year	3,679,112	3,106,048	18.4
Net Assets, end of year	\$ 3,733,679	\$ 3,679,112	1.5

### Revenues

### **Property Taxes**

The Authority's revenues are generated primarily through the use of tax increment financing in which the Authority captures ad valorem property tax and industrial facility tax revenues attributable to increases in the value of real and personal property within the district boundaries. Property tax revenues related to the State Education Tax, the Kent Intermediate School District and the Grand Rapids Public Schools levies are not captured since the Authority had no eligible obligations outstanding when Proposal A took effect on January 1, 1995. Property tax increment revenues for the year ended June 30, 2008, include property taxes levied July 1, 2007 and

December 1, 2007. Property tax revenue in fiscal year 2008 increased 35.4% compared to fiscal year 2007. The increase in tax increment revenue was primarily from the ongoing conversion of the Berkey & Gay building from apartments to condominiums. Additional information about this project is found in the Schedule of Projects (Unaudited) section.

### **Investment Earnings**

This is interest revenue earned when Authority funds are invested by the City Treasurer. The decrease in revenues between fiscal year 2008 and fiscal year 2007 is related to decreases in both cash balances and in market interest rates.

### **Expenses**

### **Urban Development**

These expenses include administration expenses, the annual property tax increment revenue reimbursement for the Berkey & Gay mixed-use development project, and the annual capital asset depreciation expense. Fiscal year 2008 expenses increased by 18.3% compared to fiscal year 2007 due primarily to the increase in tax increment reimbursements to the Berkey & Gay project.

### Interest and Paying Agent Fees

In 1997 and 2000, the Kent County Drain Commission issued bonds for the purpose of funding the City of Grand Rapids' share of floodwall improvements along the Grand River. These improvements consisted of embankments, cosmetic wall repairs, river-edge walkways, wall restoration, storm sewer flap gates, pump stations, etc. The related debt service requirements are met via assessments against the City of Grand Rapids and its component units. The Authority is responsible for 12% of the overall project debt service. In fiscal years 2008 and 2007, the Authority accrued, as required, the amount of contract interest payable at June 30 of each year.

### **Special Item**

### Settlement of Litigation

In fiscal year 2007, after engaging in facilitative mediation, the Authority received \$550,000 for damages related to the construction of the Canal Street Park project from various parties involved in the original design and construction. The funds are being used to repair and replace the Park's inadequate and/or defective facilities and infrastructure.

### **Overall Financial Position**

Management believes the Authority is in good condition financially. Current tax increment revenues are adequate to cover current administration and project commitments as well as ongoing debt service requirements.

### **Financial Statements**

### **Statement of Net Assets and Governmental Fund Balance Sheet**

_		2008		
June 30,	Governmental Fund	Adjustments (Note 3)	Statement of Net Assets	Statement of Net Assets 2007
Assets				
Equity in pooled cash and investments (Note 2) Receivables, net	\$ 1,127,100 14,049	\$ - -	\$1,127,100 14,049	\$1,311,053 22,576
Capital assets (Note 4):  Non-depreciable  Depreciable, net	- -	1,280,000 2,336,851	1,280,000 2,336,851	1,679,825 2,080,808
<b>Total Assets</b>	\$ 1,141,149	3,616,851	4,758,000	5,094,262
Liabilities Vouchers payable Accrued interest payable Noncurrent liabilities (Note 5): Due within one year	\$ - -	8,521 69,000	8,521 69,000	325,518 9,032 64,800
Due in more than one year	-	946,800	946,800	1,015,800
Total liabilities	-	1,024,321	1,024,321	1,415,150
Fund Balance Fund balance, reserved for authorized projects	1,141,149	(1,141,149)		
<b>Total Liabilities and Fund Balance</b>	\$ 1,141,149			
Net Assets Invested in capital assets, net of related debt Restricted for authorized projects		2,601,051 1,132,628	2,601,051 1,132,628	2,680,033 999,079
<b>Total Net Assets</b>		\$ 3,733,679	\$3,733,679	\$3,679,112

### Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

<u>_</u>				
Year ended June 30,	Governmental Fund	Adjustments (Note 3)	Statement of Activities	Statement of Activities 2007
Revenues				
Property taxes	\$ 421,001	\$ -	\$ 421,001	\$ 310,848
Investment earnings	65,477	-	65,477	77,853
Miscellaneous	495	-	495	<u> </u>
Total revenues	486,973	-	486,973	388,701
Expenditures/Expenses				
Urban development	236,479	143,782	380,261	310,498
Debt service:	230,179	110,702	300,201	310,130
Principal	64,800	(64,800)	-	-
Interest and paying agent fees	52,656	(511)	52,145	55,139
Total expenditures/expenses	353,935	78,471	432,406	365,637
Excess (deficiency) revenues over expenditures/expenses	133,038	(78,471)	54,567	23,064
Special Item Settlement of litigation	-	-	-	550,000
Change in fund balance/net assets	133,038	(78,471)	54,567	573,064
Fund Balance/Net Assets, beginning of year	1,008,111	2,671,001	3,679,112	3,106,048
Fund Balance/Net Assets, end of ye	ar \$1,141,149	\$ 2,592,530	\$ 3,733,679	\$ 3,679,112

See accompanying notes to financial statements.

### **Notes to Financial Statements**

### 1. Reporting Entity

The Grand Rapids Tax Increment Financing Authority (the Authority), a component unit of the City of Grand Rapids, Michigan, was created in December 1985 by the City of Grand Rapids (the City) and began operations in fiscal year 1987 under the provisions of Act 450, Public Acts of 1980 of the State of Michigan, as amended. The purpose of the Authority is to provide for the development of the Monroe North Development Area, which is bounded roughly by Coldbrook Street on the north, Ionia Avenue on the east, the Grand River on the west and the south line of Newberry Street on the south.

### 2. Summary of Significant Accounting Policies

### Basis of Presentation

The statement of net assets/balance sheet and the statement of activities/revenues, expenditures and changes in fund balance report information on the activities of the Authority. The adjustments columns are used to reflect the conversion from the balance sheet to the statement of net assets and the conversion of revenues, expenditures and changes in fund balance to the statement of activities.

### Measurement Focus and Basis of Accounting

The Authority uses the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. The Authority considers revenues available if earned and collected within 60 days after year-end; however, property tax increment revenues are recognized as revenues in the fiscal year for which they were levied. Expenditures are generally recognized when the related fund liability is incurred.

However, for presentation of the year-end audited financial data, the Authority uses the total economic resources measurement focus and the accrual basis of accounting to prepare the statement of net assets and the statement of activities. These statements are similar to statements used in the private sector by for-profit business enterprises and not-for-profit organizations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

### **Notes to Financial Statements**

### **Prior Year Columns**

The columns labeled Statement of Net Assets 2007 and Statement of Activities 2007 are presented for information purposes only. These statements do not include the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance for 2007, which are necessary for a complete presentation in accordance with generally accepted accounting principles.

### Budget

The Grand Rapids City Commission annually approves the Authority's budget after the Authority Board Members have reviewed and recommended it for adoption. The budget for the Authority is a project budget rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

### Cash and Investments

The City maintains an investment pool for most City funds including component units like the Authority. The Authority's portion of the investment pool is displayed on the balance sheet as equity in pooled cash and investments. Investments consist primarily of certificates of deposits with original maturities of greater than three months at the date of purchase, mutual funds and commercial paper. Investments are carried at fair value. State statutes require that certificates of deposit be maintained in financial institutions with offices in the State of Michigan. Interest income earned as a result of cash and investment pooling is distributed by the City Treasurer to the appropriate funds.

Investment policies and categorization of cash and investments are included in the Comprehensive Annual Financial Report of the City of Grand Rapids to give an indication of the level of risk assumed by the City at year-end. It is not feasible to allocate the level of risk to the various component units of the City.

### Capital Assets

Tangible assets having a useful life in excess of one year, with cost in excess of \$10,000, are capitalized. Capital assets are stated at acquisition cost or for donated assets the estimated value at the date of acquisition. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts. Depreciation is

### **Notes to Financial Statements**

computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Land improvements	20
Buildings, structures and improvements	30

### **Property Taxes**

The majority of the Authority's revenues are generated through tax increment financing. Summer taxes are levied on July 1 and attach as an enforceable lien at the time. Summer taxes are due without penalty on or before July 31. Winter taxes are levied on December 1 and attach as an enforceable lien at that time. Winter taxes are due without penalty on or before February 14.

### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, less accumulated depreciation, reduced by the outstanding principal balances of any borrowed funds used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use through legislation and other external restrictions

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### **Notes to Financial Statements**

### 3. Reconciliation of Government-Wide and Fund Financial Statements

Amounts reported in the Statement of Net Assets and the Statement of Activities are different from amounts reported in the governmental fund columns due to the following:

Governmental fund - total fund balance	\$ 1,141,149
Capital assets are not financial resources and, therefore, are not reported in the governmental balance sheet:	
Non-depreciable capital assets	1,280,000
Depreciable capital assets	3,961,353
Accumulated depreciation	(1,624,502)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet:	
Contracts payable	(1,015,800)
Accrued interest payable on long-term liabilities	(8,521)
Net Assets in the Statement of Net Assets	\$ 3,733,679
Net change in fund balance - governmental fund	\$ 133,038
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded net capital outlays in the current period.	(143,782)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.  Repayment of contract principal is an expenditure in the governmental fund but the repayment reduces long-term liabilities in the statement of net assets:  Repayments of principal of contracts	64,800
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	511
Change in accrued interest	511
Change in Net Assets on the Statement of Activities	\$ 54,567

### **Notes to Financial Statements**

### 4. Capital Assets

The following table summarizes, by major class of asset, the capital asset activity for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
			•	
Capital assets not being depreciated				
Land	\$ 1,280,000	\$ -	\$ -	\$ 1,280,000
Construction in progress	399,825	-	399,825	
Total capital assets not being depreciated	1,679,825	-	399,825	1,280,000
Capital assets being depreciated				
Land improvements	3,337,341	450,357	-	3,787,698
Buildings and structures	173,655	_	-	173,655
Total capital assets being depreciated	3,510,996	450,357	-	3,961,353
Less accumulated depreciation				
Land improvements	1,360,002	185,631	_	1,545,633
Buildings and structures	70,186	8,683	-	78,869
Total accumulated depreciation	1,430,188	194,314	-	1,624,502
Total capital assets being depreciated, net	2,080,808	256,043	399,825	2,336,851
Capital Assets, net	\$ 3,760,633	\$ 256,043	\$ 399,825	\$ 3,616,851

### **Notes to Financial Statements**

### 5. Long-Term Obligations

Changes in long-term obligations were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Γ	Oue Within One Year
Contracts payable	\$ 1,080,600	\$ -	\$ 64,800	\$1,015,800	\$	69,000
Contracts payable co	onsists of the f	ollowing:				
1997 Kent County I ranging from 4.5			•		\$	669,600
2000 Kent County I ranging from 5%			•			346,200
					\$1	,015,800
The annual requirem	ents to pay pr	incipal and in	iterest are as fo	llows:		
Fiscal year ending J	une 30,			Principal		Interest
2009 2010 2011 2012 2013 2014-2018 2019-2021			\$	69,000 72,600 77,400 81,600 87,000 523,200 105,000	\$	49,463 46,034 42,355 38,559 34,488 98,604 8,932
			\$	1,015,800	\$	318,435

### **Notes to Financial Statements**

### 6. Contingencies

The Authority is, in general, exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Authority in excess of amounts provided.

### 7. Subsequent Events

After the date of these financial statements it was determined by the City Commission that it would be in the best interests of the City to refund the Series 1997 and Series 2000 Grand River Floodwalls and Drainage District Bond issues that represent the long-term debt of the Authority and replace them with a single issue. The refunding was completed on September 18, 2008 with net present value savings of 3.34%.

On November 25, 2008, the City Commission approved an amendment to the Authority's development plan. The amendment added new projects for the development area but did not expand the development area boundaries. The term of the Development Plan was extended from 2029 to 2039.

### **Supplemental Information**

Schedule of Projects (Unaudited)

The Authority is currently involved in the following projects:

### Berkey & Gay Mixed Use Housing/Commercial/Office Project

In September, 2001, the Authority finalized a project development agreement (the Project) with 940 Monroe, LLC and 900 Monroe, LLC, (the Developer) related to the comprehensive rehabilitation of the former Berkey & Gay manufacturing facility on Monroe Avenue, N.W. The agreement stated that the Authority will reimburse the Developer for improvements that fall within the definition of "public facilities" under Act 450 for which the Authority's tax increment revenues (as defined in Act 450) may be used to pay the cost.

Late in 2005, the Berkey & Gay property was sold to a new owner, Parkplace Properties of West Michigan LLC. This developer planned to convert the apartment residences to condominiums over a period of time and to eventually construct additional condominium units within the Project boundaries. In March, 2006 the Authority transferred the original reimbursement agreement to the new owner and also extended and expanded the terms to include the proposed additional units. Since then, the conversion of apartment residences to condominium residences has begun and the developer has renovated and upgraded the residences as part of the conversion process. Both processes resulted in increased in tax increment revenues. At this time, construction on the additional condominiums has not commenced.

Annual project tax increment revenue reimbursements are not more than 75% of annual property tax increment revenues collected only from real and personal property located within the Project boundaries. The Developer may, depending on the amount of project-related tax increment revenues collected, receive less than the \$2,500,000 of Project public facility costs. Reimbursements accrued or paid to both developers combined through June 30, 2008 total \$665,771.

### Canal Street Park Extension of Walkway

As part of its ongoing interest in providing pedestrian access to the Grand River, the Authority approved funding for the extension of the Canal Park walkway, which will serve to complement the existing trail that goes from Michigan Street through Sixth Street Bridge Park and Canal Street Park. Authority funding will be used to support only that portion of the extension which falls within the Authority boundaries.

Schedule of Projects (Unaudited)

### **Canal Street Park Capital Repairs and Improvements**

Canal Street Park was originally constructed in 1998 but it was soon discovered that settlement of sidewalks and other appurtenant improvements was occurring in areas near the modular block walls. Discussions were initiated with the contractor and the consultants in connection with the necessary repairs. Through mediation, the contractor and the design consultants provided \$550,000 to the Authority to effect repairs to Canal Street Park.

Work began in late fall, 2006 when the Authority approved an engineering services contract for the preliminary design engineering and study phase of the project. In spring 2007 the Authority approved a construction contract for repairs and improvements to the block walls, picnic areas, landing ramp, sidewalks, light pole bases, scenic overlook, and other areas of the Park. The final phase of the renovations is expected to be bid and constructed in fiscal year 2009.